Follow the Capital: Benefits of Tracking Family Capital across Family and Business Systems

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1.1 Introduction

The Sustainable Family Business Theory (SFBT) is a comprehensive and flexible theory developed to enhance understanding of the dynamic role of the family in family business entrepreneurship as well as demonstrate integration of the family, business, and community. SFBT draws upon general systems theory and gives equal recognition to family and firm. The theory focuses on firm sustainability rather than revenue, which is the focus of most other theories used to study family firms. SFBT posits that sustainability is a function of both firm success and family functioning, and is concerned with how family members exchange resources across systems. SFBT was introduced in 1999 by Stafford, Duncan, Danes, and Winter. In 2008, changes were presented to clarify tenets, introduce advancements, and explain its applicability to ethnic family businesses (Danes, Lee, Stafford, & Heck, 2008a). It was empirically tested both in 2003 (Olson, Zuiker, Danes, Stafford, Heck, & Duncan, 2003) with cross-sectional data and in 2009 with longitudinal data (Danes, Stafford, Haynes, & Amarpurkar, 2009b).

Assumptions, concepts, and propositions of SFBT will be used in this chapter to track family capital in one family business, Kozlovsky Dairy Equipment, Inc. Family capital refers to stocks and flows of the total bundle of owning-family resources composed of human, financial, and social capital (Danes et al., 2009b). SFBT assumes that firm and family systems are functional subsystems of the family business system and identifies parallel family capital resources and interpersonal and resource processes. SFBT also assumes that experiences in one system inform the other because of the focus on resource stocks and flows over time leading to short-term family and firm achievements and long-term family business sustainability.

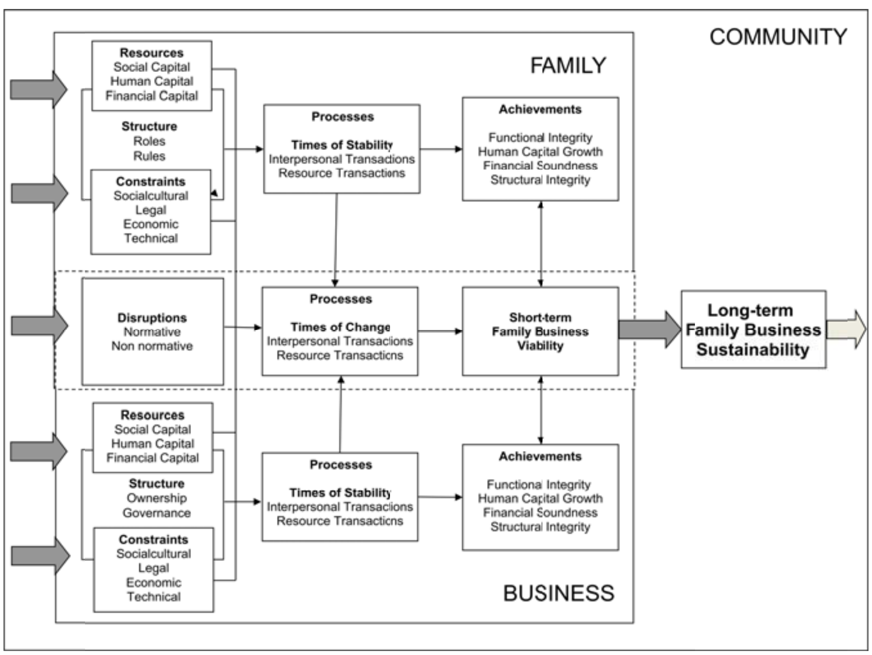

Fig. 1. Sustainable Family Business Theory

Most family business research is based on theories whose focus is primarily on structures, roles, and rules, which are unobservable theoretical concepts. A major underlying assumption of these theories is that if structures are changed, processes will change accordingly in a way that might be observable. The same underlying assumption exists in most family theories. Family theories primarily focus on relationship dynamics among family members. Those dynamics are often based on such things as love and trust, which are unobservable theoretical constructs. SFBT is unique in that it aims to measure observable theoretical constructs. The theory tracks accumulation of resources (human, social, and financial capital) and access and use of those capital stocks over time, including resource flows back and forth between family and firm. One major theoretical premise of SFBT is that resource pattern use during times of stability creates adaptive capacity for challenges during times of planned change or unexpected internal and external disruptions. Owning-family adaptive capacity, when combined with its social capital, creates a type of resilience by facilitating resource transport across porous boundaries of the family and firm during change, while maintaining boundary integrity. Adaptive capacity is often what sustains the family business when disruptions occur to either family or firm.

The theory also recognizes that there are standard operating procedures in times of stability and exception routines (Stallings, 1998) in times of change and/or disruption. Exception routines are mechanisms for addressing routines that need to be restored due to the social disorder caused by an internal or external disruption. The case study will describe the Kozlovsky family business' standard operating procedures in stable times to illustrate levels, access, and use of family capital, flows of the capital over time, and its impact on short-term firm and family achievements and long-term sustainability. It will also describe exception routines employed after the Kozlovskys lost nearly everything in a business fire. This disruption will allow for illustration of how resilience capacity created by family capital stock reserves and the access and use of family capital utilized across family and business boundaries after the fire helped save the business. The development and use of this resilience capacity and the resulting long-term sustainability will be illustrated through application of the theory's propositions to the Kozlovsky case study where resources are tracked across family and firm systems and how those resource management practices are carried from one system to the other while retaining the functionality of both family and firm.

Many theories used to study family businesses do not incorporate family members who are not owners or who do not work for pay in the family business. SFBT assumes that all owning family members have an influence whether they work in the business or not. One of SFBT's unique characteristics is that it recognizes that there are some family processes that are within the family only and some business processes that are just within the business domain, but that there are other processes where resources are shared across boundaries at the intersection of the family and business systems. Two important assumptions of the SFBT are that (a) an individual in either the family or business system may affect parts of both systems, and (b) the family or business system can die if the boundaries are too diffuse.

The Kozlovsky case study will be utilized to explicate the concepts and propositions of SFBT. The following section will introduce the case study and provide a basic explanation of the structure and roles of the family business. Since the focus of SFBT and this chapter is tracking family capital resources and the processes that access and use that family capital in family businesses, additional details about the case study will be revealed as the chapter progresses.

1.2 Kozlovsky Dairy Equipment, Inc. Case Study

Bob and Margaret Kozlovsky started the family business in 1955. In 1993, it was transferred to two of their sons, Dan and Joe, through a purchase of property by land contract. The purchased property included Bob and Margaret's house, which doubled as the business location. The legal agreement stipulated that Bob and Margaret could continue living in the house until death and provided a monthly income to supplement their Social Security.

Bob and Margaret continue to pay for utilities and house care. The property is prime riverfront property that is increasing in value.

The management of the family business was transferred from the first generation to the second at the same time the dairy industry was structurally changing. During the first generation, Bob and Margaret had a “buddy” relationship with customers and deals were sealed with a handshake. Such a relationship with customers was not going to be sustainable with industry changes. In the same year management was transferred, the business legally incorporated. The brothers own equal shares in the company. Joe's wife, Desiree, began working in the business in 1993 as a bookkeeper at $6/hour; she was later promoted to office manager for her performance and to give her increased credibility with the employees. Dan's wife, Renee, has worked periodically in the business but currently is not involved. Dan's son, Zac, has worked in the business since age 18; he is currently 21. Joe's son, Jamie, is 27 and has worked in the business approximately one year. Discussions surrounding transfer of the business to the third generation have not been extensive, but Dan has told Zac that he will not force him to take over; rather, he must want to.

Kozlovsky Dairy Equipment's mission statement is "To under-promise and over-deliver the highest quality service and product line." They have recently added "creating peace of mind for our customers, our employees, stockholders, and all our families." The owning family uses this mission statement with the business team and employees to create direction for the business. Of critical note is that "families" in the mission statement refers not only to the owning families but also to families of customers and employees. Because customer service is the heart of the business, a third addition to their business mission statement used in business decision team and staff meetings is, "Who do we serve? Professional dairymen motivated and dedicated to optimizing their dairy operation through a cooperative partnership that appreciates and values high quality service and products."

The business has four segments; because of the nature of these segments, it is a 24/7 operation. There are also considerable fixed costs in the business. The first segment is selling milking systems and installing milking parlors. For new dairy businesses, the installation projects are extensive; however, they also install smaller projects for expansion and remodeling projects. This part of the business is hard to manage because when the business has installation projects, there are not enough employees; and when they do not have installation projects, they have too many employees.

A second business segment is maintaining equipment. It is accomplished through scheduled maintenance contracts and emergency maintenance requests. Employees in these first two segments of the business need to be sophisticated technologically; there is a high training curve due to the types of equipment that need to be maintained and constant changes being made to the equipment. The third segment of the business is the “route." Service technicians who work the "route" sell relevant supplies to customers and call on each of their customers once per month. The business cost for this segment includes the service technicians and well-equipped trucks. The fourth segment is selling inflations. Inflations are the most frequently replaced component of milking centers and are vitally important to customers’ quality management. Since this product requires more frequent replacement than the scheduled route service can accommodate, the service is separate. Employees who sell inflations do not need the technological training depth required of the service technicians who work the "route."

The four segments of the business necessitate seven or eight service technicians and installation employees, three “route” employees, one and one-half inflation employees, one shop employee, one office employee, and one or two part-time employees as needed. The business leadership team is composed of Dan, Joe, and Desiree. The leadership team meets once per week on Tuesday mornings. Once per month, they review financial data from the previous month and quarterly financial data generated by Desiree. Once per year they meet to do employee evaluations. Other than these meetings, when a member of the leadership team feels that there is an immediate need to be addressed, he/she will pull the other two into an office for discussion.

Every Monday morning, there is an employee meeting. Once per month, it is a breakfast meeting where Desiree cooks and larger business issues are discussed. Both the owners and employees indicated that these weekly employee meetings have become crucial to business sustainability because they have prevented issues from “falling through the cracks.” Weekly owner and employee meetings, annual reviews, and daily conversations between the owners keep everyone “on the same page.” It is known that if something happens during the week, it can be discussed at the next Monday meeting.

On December 17, 2003, the business experienced a fire that destroyed the office building and all inventory except the service equipment in the "route" trucks. Only the contents of one computer hard drive and three file cabinets were recovered. Past business records were lost in the attic of the building. Scheduled maintenance records for the upcoming weeks and work orders were also lost. Dan had just finished refurbishing the office building by creating a bigger parts inventory room and upgrading the office area on the Sunday before the fire. "And on that Wednesday," he said, "we were scooping it up and putting it in the dumpster because we pretty much lost the whole building."

The fire was discovered at 4:30 a.m. Dan said, "A woman was driving to work and seen the flames coming from the garage. She went to the house, pounded on the door, and that's when they called the fire department." The fire caused the business to enter “survival mode.” By 10 a.m., an emergency meeting of all employees had occurred to decide roles and tasks. Desiree stated, "the employees had our backs" and "were awesome." All of them assisted in some way on the day of the fire, including one employee who had recently been fired. Another employee had recently received a large sum of money through a legal transaction and offered it to the owners to help with the transition. The generosity of the employees and their presence at the business location immediately following the fire demonstrates the sense of community that exists among the owners and employees. "It was a true testament to how tight this group was," said Desiree. Desiree had given a kidney to her father five weeks prior to the fire so she was not entirely functioning as usual; she had caught up with record keeping the day before the fire. Joe had a barn on the property that he and Desiree had recently bought; it became the new office location. That site remains the family business location; however, they still pay their parents on the land contract where the previous office and inventory structure existed.

1.3 Resources, Structure, and Constraints

Family capital resources in SFBT are classified by their forms - human capital, social capital and financial capital; note that resources within the business are identical to the family resources (Figure 1). The only difference is that in addition to family members, nonfamily employees, managers or leaders are part of the business structure. Family capital resource inputs to families and firms are inherently a stock concept. In other words, capital is a supply reservoir rather than a flow of services. The rate of flow and use of capital fits under processes of resource and interpersonal transactions. Understanding flows as well as the stock of owning family capital is critical to understanding long-term sustainability because Danes et al. (2009b) found that access to and utilization of family social capital over time was more important for sustainability of the family business than the level of family social capital.

Family and business human capital

Family and business human capital refers to attributes of individuals, such as knowledge, ethnicity, education, experience, and energy of business owners. Values and beliefs of owning family members are part of the stock of human capital resources. Values rooted in business owners traverse the permeable boundaries of family and business systems when business owners develop and enact business rules and processes (Danes, Loy, & Stafford, 2008b). Many family members work in the business and transport human capital to the firm to promote productivity in the business. Business human capital, such as ethnicity and education, is possessed by workers within the firm setting as opposed to the family setting. These forms of human capital are manifested by workers within the firm setting and offered to the work at hand.

Having both positive and negative human capital attributes heightens the importance of human capital management in achieving firm success (Astrachan & Kolenko, 1994). Positive attributes of family firms' human capital include strong commitment (Horton, 1986), friendly and intimate relationships (Horton, 1986), and potential for deep firm-specific tacit knowledge. Early involvement of children in the firm produces deeper levels of firm-specific knowledge through direct exposure and experience (Lane & Lubatkin, 1998), giving family employees deeper levels of firm-specific knowledge than employees of nonfamily firms. Negative attributes of family firms' human capital are the lack of such attributes.

Case members' family and business human capital

Dan is reserved with people he does not know. Thus, he hates the cold-calling part of the business. He has been working in the business since he was 11 and full-time since 18. He admits that he is not the most organized person. When asked to make a decision, he does not answer immediately because he needs process time. He has earned the respect of the employees and considers himself a good listener. Joe likes to stay busy and wants to make everyone happy. As a result, other family members state that he is an easy target for others to take advantage of his generosity. The cold-calling part of the business does not bother him. He interacts with people easily. He has also worked in the business since he was young except for one summer when he was not allowed to work for the business because he was "acting out" as do some teenagers. Being on-call and not being able to fix a problem when he is on-call is one of his greatest fears. Desiree is organized and works with details well. She has financial training. She tends to not let people complete their thoughts before she is already talking and setting a plan in motion to address the issue. Her tendency to do this has the potential to make others feel as if their ideas are being discounted. She has been trying to improve this behavior. Desiree grew up in a family business that failed and, thus, has definite ideas about how the family business should operate.

An observation made during the process of interviewing the Kozlovsky family was that Dan, who described himself as reserved with people that he does not know, was quite talkative while Joe, who said that he interacted easily with people, was more reserved. This suggests that although human capital stock is important, its flows (i.e., access and use) are deeply affected by and embedded within relationships with others.

Family and business social capital

Family and business social capital is the stock of good will, trust and confidence in family members or their firm. Social capital is a latent resource that is typically consumed only when it is needed (Bengston, Acock, Allen, Dilworth-Anderson, & Klein, 2005). It can be relied upon to uphold social norms and reciprocate favors (Zuiker, Katras, Montalto, & Olson, 2003) for the firm's benefit. Wright, Cullen, and Miller (2001) identify family as the key institution through which social capital is transmitted via investment of time and effort, development of affective ties, and guidelines about acceptable and unacceptable behaviors. These relational behaviors are based on contextual values, beliefs, and norms that emanate out of family structure, roles and rules (Arregle, Hitt, Sirmon, & Very, 2007).

Social capital is the result of interactions among family members and among family members and employees within the business. It is input to the firm to facilitate action (Danes et al., 2009b). Business social capital exists in the form of trust, respect, and altruism among owning family members, employees, managers and leaders. In part, the accumulation of social capital has its roots in human capital. It may be the case that families who foster and grow their human capital may be more able to germinate, transfer and/or flourish this social capital within their firms. For example, family members who trust each other may simply transfer that trust to their firm setting. Those working in the firm may be able to allow more freedom and less control over each other and over their nonfamily employees.

Family business literature indicates that conflict affects family business sustainability (Danes & Olson, 2003). In one study of women's role involvement in family businesses, business tensions, and business success, there was some evidence to support the idea of a threshold where tensions reached a point at which it affected the functional integrity of the family business (Danes & Olson, 2003). This threshold is important because of the interesting paradox surrounding tensions. On one hand, a certain level of tension acts as a creative mechanism and can increase the health, growth, and success of both businesses and families (Danes & Morgan, 2004). Higher levels of tension, on the other hand, can have the opposite effect including reduced health and satisfaction, stunted growth, and diminished success (Danes & Olson, 2003).

The impact of the couple relationship is even more important in venture creation (Danes, Matzek, & Werbel, 2010). The way the spouse and entrepreneur interact and sustain one another influences new venture success and sustainability (Cramton, 1993; Danes et al., 2010; Rogoff & Heck, 2003; Oughton & Wheelock, 2003). Arguably, couple interaction and sustenance is the very foundation for an emerging family business (Dollahite & Rommel, 1993). The couple interaction is not only the foundation for such things as spousal commitment and support for the new venture, but, over time, the solidarity or eroding of that relationship as the couple traverses the liabilities of newness can impact business achievements in the short-term and business sustainability in the long-term (Danes et al., 2010; Van Auken & Werbel, 2006).

Case family and business social capital

The trust and respect that has developed through continuous communication and discussion among Dan, Joe, and Desiree in the weekly leadership team meetings has penetrated the business via the weekly employee meetings. Dan begins a typical employee meeting by reviewing with the service technicians the installation jobs from the previous week on the work board. If all jobs are completed, then they move to a clean slate with the installation jobs for the current week.

Previous work jobs are erased before setting the current week's schedule for two reasons: (a) to make certain nothing is forgotten, and (b) to allow for immediate discussion if there are questions about performance or other problems. The half-hour to three-quarter hour meetings also provide employees with the opportunity to identify issues that need to be addressed. A recent issue identified was the need to update the written credit policy. The leadership team will develop the first draft of the revised policy. Then they will present the draft at another weekly employee meeting for input.

The trust, respect, and commitment that has been generated through these weekly leadership and employee meetings creates an adaptive capacity during stable times. The generosity and energy of current and past employees exhibited at the time of the business fire exemplifies the exception routines that kicked-in during a major disruption to the business. Those exception routines included the financial and technical support extended by the parent company. The Kozlovskys had worked feverishly and effectively over the previous two years to dig themselves out of a management and financial quagmire, including the hiring of a management consultant with whom they worked closely. The social capital reserve that the Kozlovskys had within the owning family, among employees, and with the parent company became the lifeboat that allowed them to survive this major business disruption. The "lifeboat" was the store of trust and creativity in problem solving shown from the family and business social capital stock.

Family and business financial capital

Family and business financial capital includes such tangibles as money, credit, assets such as land and business buildings, and investments of all kinds (Danes et al., 2008b). Assets are tangible or intangible and are considered applicable to the payment of one's debts. Financial assets are cash or assets readily converted into cash. Physical assets are less readily converted into cash. Certainly money, credit, and financial investments feed the gristmill of the firm within and between/among a particular business to other businesses.

Small firm finance literature acknowledges intermingling of firm and family resources (Zuiker, Lee, Olson, Danes, Van Guilder Dik, & Katras, 2002) and indicates that many small firm owners fund their firms through personal savings, supplemented by family money and community resources (Kushnirovich & Heilbrunn, 2008). Cole and Wolken (1995) reported that 39.2% of small firms used personal credit cards for their firms. These financial commitments represented sacrifices of not only individual owners but also their families.

Within family firms, family and firm have been found to compete for resources of individual family members and of family collectively (Stafford et al., 1999). Family firms used strategies that juggle resources to address needs during high-demand times. Examples of strategies used included family members helping in the firm without pay, transferring less firm income to the family for a short time, or hiring temporary help in either the family or firm (Danes et al., 2009b).

Family and Business Constraints

Constraints on families and their businesses limit resource use. Constraints are classified as socio-cultural, legal, economic, and technical in nature (Figure 1) (Danes et al., 2009b).

Family and business sociocultural constraints consist of norms, mores, and ethics within owning families and their businesses.

Norms are standards, measurements, or judgments. Standards agreed upon by owners, employees, and managers represent their regular or customary way of doing something within the business such as production line work, delivery of services, quality control measures, or project completion. Mores are traditions, customs, or ways of living manifested in owning families.

Family and business legal constraints include laws and regulations often intended to control various behaviors and activities in the business. Tax laws dictate the amount of taxes due. Business laws and regulations may vary over time and among federal, state, and local governing units. Laws and regulations may either enhance or limit a business and its achievements depending on their nature.

Family and business economic constraints include the mechanisms of supply and demand within our capitalistic system as well as the general notions of how scarcity and abundance affect businesses. Just as families may be stressed or strained during periods of economic recession or depression, so can businesses suffer. Established markets and consumer demand may be reduced and therefore business income may be reduced, in some cases drastically. Regenerating or constricting a business and its resulting revenues may be one strategy to compensate for lower demand for a business’s standard products and services. In contrast, times of abundance may provide economic opportunities of many kinds such as increased business income, an expansion of a business venture among others.

Family and business technical constraints include laws of nature related to physics, chemistry, and natural sciences and result in such phenomenon as climate, weather, and natural disasters of all kinds (Hammond, 2003). Such technical constraints limit firm activities at a very basic level and may either enhance or limit business processes and its achievements depending on their nature.

1.4 Family and Business Structure

Family structure refers to roles and rules of the family system (Figure 1). In family firms, owning families may need additional structures, such as a family council, to handle or manage family matters. Family structure changes over the life course as family members age and marry, have children, or leave home. Ethnic groups may define family roles differently (Danes et al., 2008a). Family capital is grounded in structure that is composed of family roles and rules. Family roles and rules are a state and not a process (Danes et al., 2008a). They clarify membership, organization, and bonding (Danes, Rueter, Kwon, & Doherty, 2002; Stewart and Danes, 2001). They also clarify who leads, specify how members manage or distribute family resources, and limit the effect of constraints.

Family roles and rules, such as household manager, parent, spouse, child, sibling, etcetera, are assigned to family members. While roles change over time, individuals in the roles can be most effective when the roles are well-defined with boundaries known and respected by all family members. Rules include such phenomena as inclusion, integration, boundaries, commitment, and core values (Danes, 2006). Shared meaning is core to family roles and rules and include values, norms, and beliefs of the family's culture (Haberman & Danes, 2007). Decision inclusion and authority patterns also are a part of family roles and rules (Danes & Morgan, 2004). Some of these roles and rules are evident to every member of the family, but some may be so deeply ingrained within the family culture that members count on them unconsciously (Haberman & Danes, 2007).

Business roles and rules include ownership and governance. Firm ownership is as varied as business owning families. Governance within the family business often starts with the notion of professionalization or, in other words, incorporating formal business practices into business operations. Because family businesses are likely to evolve from the informality of the family unit, sometimes the associated family business must formalize their structures internally so that effective operations can be promoted and implemented (Gallo & Tomaselli, 2006; Songini, 2006). Roles and rules also determine how the business defines itself in relation to the outside world (Danes & Olson, 2003).

Case family and business roles and rules

Dan and Joe are two of one dozen siblings, eight of which are women and four of which are men. Dan is Bob and Margaret's first-born son and Joe is two years younger than Dan. Both Dan and Joe married young; Desiree is Joe’s second wife. When Joe was married to his first wife, a family rule existed that no spouses were to be involved in the business. An implicit family rule indicated by behavior and dialog is that siblings are responsible for overseeing that their parents live a comfortable life in retirement. Within the business, Dan manages the service and installation department and does all bidding for the installations. Joe manages the regular routes, including those servicing the inflations; he also manages the chemicals, which are a major product type sold on the "route." One way Dan and Joe have dealt with their tendency to be competitive with one another is to maintain different roles in the business. Desiree supervises the office staff and manages the bookkeeping system.

Propositions: Resources, Structure, and Constraints

(a) family capital (composed of human, social, and financial capital) from both family and business are inputs that can be used to solve problems of the collective interaction of family and business

(b) capital can have simultaneous positive or negative effects on firm performance, depending on the circumstances

(c) constraints impose limits on alternative capital, processes, and achievements available

Family members working in the business may be a good illustration of the dual empowering and constraining aspects of capital. Working in the business can be a resource or constraint depending on the life cycle stage of the family or the business. For example, during the early years of a family venture, the family often provides the firm with a steady supply of trustworthy human resources (Ward, 1997). In fact, Chrisman, Chua, and Steier (2002) stated that new family firms might not face the same liability of newness because of the labor provided by family members. In their formative years, family firms benefit from human and social capital transfers between family and firm because family social capital fosters commitment and a sense of identification with the founder’s dream (Van Auken & Neeley, 2000; Van Auken, 2003; Winborg & Landström, 2001). The human capital stock of the owning family may be limited or eventually outstripped by the demands of a growing business.

1.5 Processes in Times of Stability

SFBT suggests that resource transactions (e.g., utilization or transformation of time, energy, and money) and interpersonal transactions (e.g., communication or relationship and conflict management) from the business and family may facilitate or inhibit the sustainability of family businesses. For example, a family social capital resource transaction might include spousal involvement in the business or it might include interpersonal transactions such as development of guidelines about acceptable and unacceptable behaviors of family members related to the business.

The primary family process of concern within family businesses is work/family balance. In fact, Danes and Morgan (2004) found when surveying a nationally representative sample of family businesses that work/family balance was the highest tension producer and remained so over time (Danes, 2006). Dan and Renee do not talk business when he goes home in a nearby town. "I try to leave work at work when I go home," Dan said. That is a bigger challenge for Joe and Desiree to do because they work together in the business.

Important resource and interpersonal transaction processes during times of stability in the business are those of quality, employee, and financial management. Interpersonal transaction processes of communication, role, conflict, and relationship management are critical to both the family and firm during times of stability. Interpersonal transactions among family members have been depicted as an obstacle to successful ownership transfer of family businesses (Lansberg & Astrachan, 1994; Rodriguez, Hildreth, & Mancuso., 1999). Yet, family interpersonal transactions may also be a source of support that helps a family business overcome adversity and social change (Simon & Hitt, 2003). Van Auken and Werbel (2006) suggest that family members provide financial resources through outside sources of earned income, emotional support in the form of encouragement, and instrumental support in the form of knowledge or physical assistance in helping the family business to survive (Matzek, Gudmunson, & Danes, 2010).

SBFT processes transform inputs into achievements in the short-run and sustainability in the long-term, given structure and constraints. In the short-run, processes use capital to create other capital or enhance and increase existing capital. Short-run processes that entail capital flows result in transformed capital stocks that are available inputs for future periods' processes, determining long-term sustainability. Stress in SFBT evolves when resources are threatened, lost, or believed to be unstable, or when people cannot see a path to protecting resources through joint or individual efforts (Hobfoll, 2001). SBFT indicates that resources are exchanged at the boundaries of family and firm when disruptions are encountered (Stafford et al., 1999). Thus, responses to disruptions are placed at the interface of family/business and these responses are not a component of family businesses to ignore. Olson et al. (2003) found that responses to disruption explained 20% of business revenue variance.

The overlap of family and firm differs under varied circumstances and during different stages of the family or firm life course can have positive or negative impacts on business. For instance, Habbershon (2006) proposed that as businesses get larger the family influence is less extensive. In one study, the affect of family on business performance was described as ranging from synergistic to constrictive (Habbershon, Williams, & MacMillan, 2003). Synergistic families have beneficial effects on firm performance compared to constrictive families that have negative effects on firm performance. Ensley and Pearson (2005) found that top management teams of family firms performed both better and worse than those of nonfamily firms.

Propositions: Processes in Times of Stability

(a) The process of drawing upon family capital stock creates a change in that capital stock (either enhancement or reduction), that when added to the original level, becomes the current period's output, which will be input for the next time period

One year after the fire when the business was again stable, Dan said that employees were "putting in a lot of hours and morale was starting to decline." Dan and Joe knew they needed to do something to reinvigorate employees. They called the employees into the office one day for a special meeting and asked everyone to clear their calendars. Employees were a bit worried about what was going to happen. They thought that perhaps some of them would be fired. However, soon after the meeting started, a bus arrived and Dan and Joe said that they were all going to take the day off to relax and go skeet shooting. It took the employees awhile to realize that Dan and Joe were serious about relaxing and having fun that day. This special-planned event, which had no effect on employee pay, improved employee motivation and ultimately the quality of their work which, in turn, instilled greater employee productivity.

(b) owning families manage both family and business system resources together to meet overlapping needs instead of each apart from the other

With the business building being on Joe’s personal property, some customers thought that he was accessible to them no matter the day or time. In order to allow Joe continued use of the property in his spare time away from the business and still meet the emergency needs of customers, the owners inaugurated a $20 weekend office fee for customers. By introducing this weekend fee, the Kozlovskys were helping customers understand better Joe's work/family boundaries.

(c) the degree of overlap between family and business adjusts depending upon demands emanating from either internal or external demands

Although Dan and Joe’s dad is retired, prior to the fire he was "in the loop" about what was going on with the business because both of his sons stopped to see him for coffee and to read the newspaper before beginning their work days. The sons and their dad greatly miss this family/business interaction now that the business is located on Joe and Desiree's personal property.

(d) out of the overlap of family and business evolves a culture that assumes (either intentionally or unintentionally) some of the values, attitudes, and beliefs of the owning family

The respect with which the Kozlovskys treat their employees comes from the value that Dan and Joe heard all of their life. The statement that drives their employee policy is “treat people like you want to be treated.” Dan and Joe do not treat their employees "as numbers" nor ask them to do anything that they would not do themselves or that they already have not done.

(e) processes in the family and business are composed of interpersonal transactions (e.g. communication, personal relationships, conflict management) and resource transactions (utilization or transformation of social, human, or financial capital) that can be thought as routine, or standard operating procedures

The weekly owner and employee meetings to organize work projects and problem solve issues that arise have become standard operating procedures. However, these routines are not just resource transaction processes. The employees feel that the owners treat their opinions with respect and that they have a stake in the business. As a result, there has been little employee turn-over in the business.

1.6 Disruptions and Processes in Times of Change

A unique contribution of SFBT is that it acknowledges that standard operating procedures used in normal, stable times need to be adjusted in times of change. Ward (1997) indicated that the long-term sustainability of any family business depends on its ability to anticipate and respond to change. Modified processes are needed for a family business to remain healthy when responding to changes that occur during disruptions in either the family or the business system (Danes et al., 1999; Danes et al., 2002).

SFBT stipulates that during stable periods, family and firm are managed within their boundaries. During periods of disruptions, the other system's resources are used. Those adjustments are most often made at the interface of the family and firm where interpersonal and resource transactions occur that utilize the total family capital base from both family and firm. Business and family managers must perceive, process, and respond to a changing environment and reconstruct processes to ensure sustainability over time. Resilience during times of change is the ability of a family business to adjust resource and interpersonal processes to internal and external disruptions (Danes, 2006). Using the metaphor of stock and flow in economics and system dynamics modeling, a stock of resilience capacity can be built in either the family or business system, and that capacity can flow across permeable boundaries when it is needed. If families have built a stored capacity for resilience, when they encounter a disruption, the store of trust and creativity in problem solving can be more easily and quickly tapped and adapted to the new situation (Danes et al., 2002).

SFBT recognizes that internal or external change can create disruptions that are either normative or non-normative. Normative disruptions are those such as peak season of the business when firm processes can become overwhelming to the system. Normative disruptions can evolve from either system (family or firm) such as a family member having the flu and being unable to perform their business duties for a week (Danes, Lee, Amarapurkar, Stafford, Haynes, & Brewton, 2009a). Some normative disruptions, such as succession and management transfer, can have major impacts on either the family or business system or both simultaneously. Non-normative disruptions are those that are unexpected or highly unusual such as a natural disaster that forces temporary firm closure (Brewton, Danes, Stafford, & Haynes, in press). The non-normative disruption in our case study was a business fire that destroyed most of the business records and inventory.

Responses to normative disruptions are changes made in one system (firm or family) to accommodate needs of the other when unusually heavy demands exist. These response patterns to normative disruptions are often referred to as standard operating procedures. Patterns of adjustment behaviors during normal but hectic times and the stock of family capital (composed of human, financial and social capital) create a resilience capacity that tends to automatically kick in when encountering a non-normative disruption such as a fire or death of a family member. The owning family is the repository of this resilience capacity (Danes et al, 2009b; Danes & Stafford, in press).

Business disruptions can require firm and family to pool resources to sustain the family business. Further, business disruptions caused by natural disasters, fires, labor actions, cyber or virus attacks, and other major disruptions, can be especially serious and place the firm and family at risk (Keating, 2001). These types of disruptions not only impact firm and family, but have very serious ramifications for the host community. If the business community finds itself unable to recover from these disruptions, these communities face the dual challenges of decreased business and agency services and increased social and economic needs. Businesses leave because they are unprofitable and agencies depart because they are serving too few people, while those remaining in the community grapple with the challenges of a declining community. Internal to the family business, tensions resulting from the disruptions of change affect the interdynamics between spouses who own family businesses. The tensions that occur between spouses at the intersection of the family and business systems often center around resources such as the allocation of finances, the distribution of time across the family and business, or the energy and commitment provided to either or both systems (Danes & Morgan, 2004; Danes et al., 1999).

Propositions: Disruptions and Processes in Times of Change

(a) systems interact by exchanging capital (resources and constraints) at their boundaries during times of disruption and those resources can be tracked

Joe and Desiree had a barn on their recently purchased personal property and offered it to the business after the fire for a minimal rental price so that the business had a place to store inventory and have an office. Their contribution was not only a family financial resource transaction but a social capital resource transaction, as well. Now they have varied business traffic, including semis, on their personal property. Joe immediately became more accessible to employees because he was constantly on the property.

(b) after disruptions, processes must be reconstructed to ensure sustainability over time

At the time of the business transfer, Dan and Joe's father did not feel obligated to share any of the financial or legal agreements with the remainder of his children. Thus, the other siblings assumed Dan and Joe were given the land where their parents lived as well as the business. When major work needed to be done on their parents' house so that they could live on one floor, the siblings stated that Dan and Joe should pay for the adjustments. To address this family disagreement, Dan and Joe hosted a family meeting with all siblings and no spouses to discuss financial and legal agreements such as the land contract that they were paying their parents and the renting of the building used for the business. They revealed all business assets and liabilities. Dan and Joe offered each sibling the opportunity to buy into the business but no one chose to do so. Reconstructing the "wall of silence" about business succession and transfer decisions reduced family tension by providing the siblings with knowledge they did not have.

(c) conflicts arise when there is a mismatch between demands and resources that can be used to meet those demands

The leadership team understands the 24/7 nature of the business and its effects on their families and those of their employees. The way they manage this demand when emergency needs from customers arise is to distribute the off-hour on-call times. Dan and Joe alternate between Tuesdays/Thursdays and Mondays/Wednesdays each week. Seven employees handle Friday night through Monday morning on-call periods every other weekend. By distributing the on-call hours in this manner, they are trying to avoid the work/family balance conflicts that tend to arise with 24/7 on-call businesses.

(d) patterns of resource and interpersonal transactions in firm and family systems during times of stability create a resilience capacity that serves as a foundation for addressing stresses during times of change and disruption

Weekly employee meetings provide a platform for owners to discuss weekly work orders, on-call schedule issues, and other timely communications. Employees know that if they have concerns that develop during the week, they can introduce them at the meetings. The monthly breakfast meetings additionally show appreciation from the owners for the work that the employees do. Work organizational processes that take place within these meetings have become standard operating procedures. So when the fire occurred, the emergency meeting was called and these standard operating procedures “kicked-in” to help determine who would do what and who would be in charge of what so that the emergency service parts and equipment could be ordered and priorities could be established. Without the resilience capacity created by these standard operating procedures, the base from which the exception routines flowed would not have existed, and the recovery process would not have worked as effectively or efficiently.

(e) family and business are affected by environmental and structural change that can be normative and non-normative

When Dan and Joe took over the business from their parents, many business processes had to change to remain sustainable over the long-term including the manner in which accounts receivable were collected and quality management procedures. The number of customers was increasing and it was necessary to operate differently in terms of production costs, competitor analyses, and quality control. With an increased standard for milk quality experienced by their customers came the recognition that quality milking equipment was necessary to meet those required standards for their customers.

1.7 Achievements, Short-term Family Business Viability, and Long-term Sustainability

SFBT recognizes components of both short-term family business viability and long-term sustainability. Family firm achievements are current year's outcomes; they are revenue, profit, goods and services produced, perceived success, jobs created, etc. Viability is the result of family/firm achievements in the current year. Achievements are multiple and must be evaluated multi-dimensionally for a complete outcome assessment (Cooper & Artz, 1995; Cooper, Dunkelberg, & Woo, 1988a; Cooper, Woo, & Dunkelberg, 1988b). In SFBT, viability is the result of the overlap between what the family and firm achieved during the current year

(Danes et al., 2008a). Sustainability is the outcome from multiple years of viability.

Long-term sustainability is a function of both firm success and family functionality. Both achievements within the family and business join and interact to create short-term family business viability. This short-term family business viability is represented by the separate but related well-beings of the family and of the business because family and business are inextricably interconnected. One cannot achieve well-being in either system without reaching the well-being in the other system.

A constant over time in measuring family business achievements has been financial measures (e.g. income, profit, growth); those measures have long been the gold standard against which family businesses have been measured. More recently, however, the multidimensionality of firm success has been recognized (Danes et al., 2008b; Paige & Littrell, 2002). Examples where authors have simultaneously tested firm performance with financial and non-financial measures are Olson et al. (2003), Danes et al. (2008b), and Danes et al. (2009b). Subjective, nonpecuniary measures of firm success provide more insight into the owner's commitment to or passion for the firm (Stanforth & Muske, 2001).

SFBT has always recognized the multidimensionality of family firm achievement and sustainability. This SFBT proposition addresses Gimeno's (2005) argument that family firms must meet owner expectations as well as financial criteria to be considered successful. In the first version of the theory (Stafford et al., 1999), objective and subjective measures were viewed as different measures of the same construct, business success. Considering empirical results from consequent analyses incorporating human, financial, and social family capital and their influence on family firm performance, Danes et al. (2008b) and Danes et al. (2009b) have suggested that rather than objective and subjective measures of the same construct, results indicated that family firm owners have financial and nonfinancial objectives for their firms. The qualitative nature of differences (different significant variables in the two equations or different variable signs) that specific types of family capital had on the two dependent variables (gross revenue or perception of success) indicated true multiple firm objectives (financial and nonfinancial) for family firms.

Family business integrity is rooted in the functional integrity of the owning family and is the core of family business resilience capacity over time. Contributing to this argument, Stafford and Avery (1993) identified congruity as an important family output and defined it as “the extent to which the different schedules pursued by a family, both individually and collectively, fit together harmoniously, appropriately, suitably, or agreeably” (p.18). Family business congruity represents the perception owning family members have about decision making and activity coordination that fit together harmoniously into group knowledge and action (Avery & Stafford, 1991). The congruity of the owning family, however, can often implicitly and sometimes explicitly influence the management of family business employees. At any point in the flow of resilience capacity, congruity can vary depending upon current conditions at the family/business interface. Lack of congruity undermines efficiency, reduces cooperation and decreases resilience.

In a study of integrated, interfunctional family business quality management inclusive of family/business management and utilizing multi-dimensional business success outcomes, the results supported the importance of including family/business interface management as a component of an integrated, interfunctional quality management approach (Danes et al., 2008b). Business and family/business interface management explained significant proportions of the variance in both measures of success (log of gross revenue and congruity between family and business). Family/business interface management, however, explained 3.7 times more variance in gross revenue than business management explained. Further, family/business interface management explained 2.9 times more variance in congruity than business management explained.

Propositions: Achievements, Short-term Family Business Viability,

and Long-term Sustainability

(a) sustainability is a function of both business success and family functionality

When Dan and Joe were children, they indicated that they always “butted heads” because of the competition between them. As Desiree came into the business that competitiveness was exacerbated so that Dan felt as if it were a 2-to-1 situation. They had to work hard on both sides to conquer these issues. Desiree had to learn to not start conversations with “Joe and I talked last night about…” and Dan had to learn that Desiree was committed to the business and had its best interest at heart. Respect for Desiree and her work ethic led to trust, which eventually led to Dan and Joe giving her more credibility with the employees via promotion to office manager.

(b) owning families manage family and firm jointly to optimize achievements

Desiree was six months pregnant when she took over the financial record keeping job in the business for “the very reasonable rate of $6/hour.” She needed a job and said that no one would hire someone so pregnant. Dan had to think about hiring a family member because of the “family business rule” of not hiring spouses, but in the end, after a "pretty hard sell," he agreed. He chose to trust a family member with a personal stake in the business over a non-family member. Dan and Joe accessed latent family capital stock in Desiree, and drawing on previously developed social capital stock between the two owners, adjustments were made in family rules and roles to optimize family business achievement.

(c) family firms outcomes include both short-term viability and long-term sustainability

In a primarily service-oriented family business such as Kozlovsky Dairy Equipment, Inc., structural integrity of the business is dependent upon employee motivation and performance to meet quality standards needed to sustain the business long-term. Dan and Joe’s employee philosophy of “treating employees like we want to be treated” and having an “open-door” policy about concerns is crucial for short-term viability of the business because motivated employees will provide quality service to customers. Dan and Joe recognize that their employees work long hours so they do special things on a regular basis such as the monthly breakfast meetings. Often employees’ spouses are included in events that they plan because Dan and Joe know that work/family balance is an issue with their employees' families, too. The Kozlovskys have organized, for example, camping and golfing events for employee families in the summer and bowling events in the winter. These are in addition to the traditional business events of most businesses, such as a Christmas party. Desiree stated, "It's nice when times are good that we can give back. And I don't feel that our employees have ever not appreciated anything we've done for them." In turn, employee motivation and commitment created in the short-term enhanced quality standards and a stable employee base within the service business, all of which has contributed to the long-term sustainability of the business.

1.8 Community Context of Family Firms

SFBT recognizes that the firm is part of a larger system by placing the family business within its community context (Danes et al., 2008a). Business/community symbiosis is recognized within SFBT because firms do not make economic decisions in a social vacuum, but rather in the social context of their community host (Danes et al., 2009b). Community is defined in SFBT as a collective interaction rather than simply a group that shares a few common characteristics (Kulig, 2000) because families act as the mortar that connects communities, individuals, and firms and makes them function effectively. The firm/community interaction plays a prominent part in the management of many ethnic-family businesses (Danes et al., 2008a; Fitzgerald et al., in press).

Members of family and business systems may interact with the community; the manner and degree to which that interaction with the community occurs is rooted in the meanings that family members give to that activity. The owning family provides a fertile environment of values, attitudes, and beliefs that serve as inputs into the family business culture. One of the attitudes from the family that often transfers into the business through its family employees is responsibility to the community. Responsibility to the community is especially salient among rural family business owners (Brewton et al., in press). Success of the family business depends upon whether the firm is managed in harmony with the local community culture (Astrachan, 1988; Niehm, Swinney, & Miller, 2008). A positive symbiosis between the family business and its community host is more productive for both the firm and the community compared to a situation where there is not a good match between the two cultures (Fitzgerald et al., in press).

Propositions: Community Context of Family Firms

(a) a positive symbiosis between family, firm and its community host is productive for both firm and community

The Kozlovsky family business services a number of family businesses in the surrounding area. Employees of these businesses appreciated what the family did to stay in operation after the fire; it affected their families' incomes. The community was affected, too. Since the fire, the business has grown such that the "route" covers a two and one-half hour area. They also have employed a number of former owners of dealerships like theirs that are no longer operating.

1.9 Summary and Conclusions

Conceptual (Danes et al., 2008a; Heck, Danes, Fitzgerald, Haynes, Jasper, Schrank, et al., 2006; Stafford et al., 1999) and operational (Danes et al., 2009b; Olson et al., 2003) aspects of the SFBT have been the focus of this chapter. The comprehensive nature of the SFBT enhances understanding of family in the business and business in the family through its systems orientation. It locates entrepreneurship and the business within the social context of the family and its community. Unlike many other theories that take a comprehensive approach to the study of the family business, it emphasizes the interaction of the family and business systems while recognizing the different characteristics of each.

Future family business research grounded in a family business theory such as SFBT will: (a) incorporate the integrated nature of owning family capital - a bundle of human, financial, and social capital; (b) emphasize managerial processes of family and business resources and not just roles and structures; (c) give recognition to mutual functionality of family and business systems; (d) recognize that processes are different in times of stability and times of change; (e) identify that family firm success is inclusive of both short-term viability and long-term sustainability; and (f) recognize that a positive symbiosis between family, firm, and its community host is productive for both the firm and community. When grounded in such a theory, certain methodological criteria are necessary to operationalize the theoretical principles. Many of these methodological principles were utilized in the collection of the National Family Business Panel data (Winter, Fitzgerald, Heck, Haynes, & Danes, 1998; Winter, Danes, Koh, Fredericks, & Paul, 2004).

When collecting data using SFBT as its foundation, both family and business system variables are needed. Multi-informants are much better than single informants because family and business management variables are best asked of the person who primarily oversees those system processes. Longitudinal data are necessary to capture processes in times of stability and change. If a researcher is to study factors influencing short-term viability and long-term sustainability, again longitudinal data are necessary.

For family business research to progress in the future, the complexities of the family business system need to be captured in the data that are used to do the research. That means research teams need to be multi-disciplinary and data need to be collected using multiple methods. It means that funding sources will have to be pooled because such research is expensive. It means that researchers need to prepare their students for meeting the challenges of conducting such research both theoretically and methodologically with the intent of enhancing knowledge within our field of study concerning family businesses worldwide.

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